

Message Text

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ACTION EB-08

INFO OCT-01 NEA-10 ISO-00 CIAE-00 DODE-00 PM-05 H-01
INR-10 L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15
ICA-11 DOE-15 SOE-02 COME-00 TRSE-00 FTC-01 STR-07
OMB-01 OES-07 /105 W

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R 021334Z APR 78

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 1595

INFO AMCONSUL DHAHRAN

USLO RIYADH

C O N F I D E N T I A L JIDDA 2485

E.O. 11652: GDS

TAGS: ENRG, SA

SUBJ: ARAMCO TAKEOVER, PRODUCTION CAPACITY

1. ARAMCO BOARD WILL BE MEETING IN VIENNA IN MID-APRIL, ACCORDING TO SENIOR PETROMIN EXPATRIATE ADVISOR WHO BELIEVES THAT UNUSUAL LOCATION AND SECRECY MAY PRESAGE ANNOUNCEMENT OF FINAL TAKEOVER. ADVISOR TOLD US THAT RECENT FLURRY OF WORK ON ORGANIZATIONAL PROPOSALS BY UPPER-LEVEL SAUDI OFFICIALS OF PETROMIN ALSO POINTS TOWARD ANNOUNCEMENT OF ARAMCO SUCCESSOR COMPANY ARRANGEMENTS. ADVISOR, HOWEVER, SAID HE HAD NO IDEA WHAT ARRANGEMENTS MIGHT BE ANNOUNCED.

2. ADVISOR SAID THAT MINPET'S ALREADY STRICT SECURITY HAS BEEN FURTHER TIGHTENED UP FOLLOWING RECENT N.Y. TIMES ARTICLES ON SAUDI OIL SITUATION, WHICH HAD ANGERED CROWN PRINCE FAHD. HE NOTED THAT SAG'S REACTION TO STORIES OF SAUDI PRODUCTION DIFFICULTIES (BY DEPMIN PETROLEUM AL TURKI) WAS, HOWEVER, CONSIDERABLY LESS THAN A THOROUGH DENIAL. INDICATION OF MINPET'S DEFENSIVENESS AND SECRECY, HE SUGGESTED, WAS FACT THAT RECENT DECISION TO LIMIT PRODUCTION OF LIGHT CRUDES WAS ANNOUNCED TO OIL JOURNALS
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BEFORE IT KNOWN IN PETROMIN.

3. ARAMCO'S PRODUCTION EXPANSION PLANS CONTINUE TO BE WHITTLED DOWN BY COMPANY'S NEED TO SPEND AVAILABLE CAPITAL FOR MAINTENANCE OF CURRENT PRODUCTION LEVELS, ACCORDING TO OUT PETROMIN SOURCE. COMPANY HAS NOW BEEN REQUIRED TO EMBARK ON SECOND SEA WATER INJECTION

SYSTEM WHICH WILL NOT INCREASE PRODUCTION CAPACITY, BUT IS CAUSING CANCELLATION OF OTHER NECESSARY WORK SUCH AS INSTALLATION OF CRUDE DESALTING FACILITIES. (BUDGET FOR LATTER PROGRAM, WHICH WOULD ENABLE REOPENING OF MANY SHUT-IN WELLS, HAS BEEN SLASHED FROM OVER \$2 BILLION TO \$300 MILLION.) SAG SWITCH TO EMPHASIS ON HEAVIER CRUDES WILL NOT GREATLY IMPROVE SITUATION, ACCORDING TO ADVISOR, WHO BELIEVES THAT SAFANNIYA RESERVES ARE OVERESTIMATED (CITING COMPLI-CATED GEOLOGY AND WATER INTRUSION AS LIMITING FACTORS) AND THAT MANIFA CRUDE WILL NOT SELL BECAUSE IT DOESN'T MIX WELL IN REFINERY RUNS. MOREOVER, PRODUCTION OF NEW AND PRESENTLY UNDEVELOPED FIELDS WOULD INVOLVE VERY HIGH CAPITAL COSTS (SOME FIELDS WOULD REQUIRE PRESSURIZATION OR PUMPING EVEN INITIALLY), WHICH ADVISOR DOUBTS SAG READINESS TO UNDERTAKE. HE SAID HE BELIEVED THAT, WITHOUT SUBSTANTIAL NEW FUNDING IN NEAR FUTURE, ARAMCO SUCCESSOR COMPANY WOULD BE UNABLE TO PRODUCE MORE THAN 9-10 MILLION B/D IN MID-1980'S.

4. COMMENT: WHILE OUR SOURCE IS SOMEWHAT OF A CASSANDRA, HE HAS GOOD ACCESS AND HIS INFORMATION IN PAST HAS BEEN RELIABLE. IF WHAT HE SAYS IS ACCURATE, WE ARE IN FOR TROUBLE EARLIER EVEN THAN EXPECTED. HE HIMSELF THINKS THAT SAG IS DELIBERATELY HOLDING BACK
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ON ADDING PRODUCTIVE CAPACITY TO GIVE SIGNAL TO USG AND OTHER WESTERN GOVERNMENTS.
WILEY

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Message Attributes

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